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Terrorist financing systems¹ have evolved over the years. Advances in technology and counter-terrorism financing campaigns influence the patterns of terrorist organizations in this domain. They adopt new methods, open new funding sources and channels, and improve and expand the use of existing methods in feasible locations.

Terrorist financing systems comprise several components, including:

Sources of Funding ("Money Sources"): Terrorist organizations seek to diversify and expand their funding sources to enhance their resilience and operational capacity. These range from state sponsorship to charitable donations and community-based funding.

In cases where terrorist organizations control territory and populations ("Hybrid Terrorist Organizations"),² the population itself becomes an additional source of funding. This includes taxation, donations, property confiscation, looting, and more.

Terrorist organizations use internal and external sources, both legitimate and illegitimate, and focus on the intersection between terrorism and crime. Terrorist organizations have expanded their involvement in criminal activities to finance their operations. For example, terrorist organizations engage in drug and cigarette trafficking, trade in used cars, diamonds, counterfeit documents, natural resources, and arms. They are also involved in human trafficking, looting, robbery, smuggling, and money laundering.

A focus on narcoterrorism reveals a convergence of interests between terrorist organizations and drug cartels. From the perspective of drug cartels, the cost-benefit analysis shows a strong incentive for profit by increasing logistical capabilities, distribution channels, money laundering, and money preservation and reinvestment mechanisms. For

1 This research was conducted with the generous backing, expertise, and funding of CENTEF (Center for Research of Terror Financing). We extend our sincere gratitude for their comprehensive support of this project.

2 Eitan Azani, The Hybrid Terrorist Organization: Hezbollah as a Case Study, *Studies in Conflict & Terrorism*, Vol. 36, 2013, pp. 899-916. <https://www.tandfonline.com/doi/pdf/10.1080/1057610X.2013.832113>

terrorist organizations, drugs serve as a revenue-generating commodity. Similar routes and logistical mechanisms are used for the smuggling of drugs, humans, diamonds, etc.

As part of the ongoing monitoring of terrorist financing systems conducted by the International Institute for Counter-Terrorism (ICT) at Reichman University, it has been observed that there is a significant overlap between the map of drug production and distribution sites and international terrorism hubs. Drug production and cultivation centers are found in Colombia, Bolivia, Peru, Lebanon, Afghanistan, Myanmar, and other locations. These drugs are transported along distribution routes through Colombia, Venezuela, Mexico, the Tri-Border Area (Brazil-Argentina-Paraguay), West Africa, Lebanon, and others, eventually reaching key markets such as the United States, Europe, Southeast Asia, and the Middle East. Such activities are usually facilitated in failed states characterized by governmental chaos, political corruption, and porous borders.

The second component in the terrorist financing system is the funding channels ("**Money Channels**"). Terrorists use the formal banking systems where compliance is feeble or lacking, alongside informal money transfer networks such as hawala systems. In addition, they use new fintech platforms and almost zero-compliance domains of cryptocurrencies (ICOs, wallets, exchanges).

The third component is money laundering, funds preservation through reinvestment, and money management ("**Money Management**"). On the money management side, it is assumed, though not yet thoroughly researched, that for terrorist organizations, graphs of money raising and expenditure only partially overlap. Thus, terror organizations would reinvest money surplus in years where sources are greater than uses, and would draw money from their investments.

Another relevant element is the terror organizations' expenses that are recurring and growing over time. Some examples are pensions, rehab for the injured, family payments for the deceased, long term commitments for real estate (bases, logistical warehouses, training facilities) and more. These mechanisms require special attention as forsaking them may undermine the wide social support on which many terror organizations rely.

The fourth component deals with the way money is spent ("**Money Uses**"). In this context, it is important to understand where the money is transferred to, through what channels, who manages its distribution, and to what ends. The beneficiaries of the funds include operatives, their families, and supporters. The fund enables the organization to grow in scale and scope, fortify, distribute propaganda, purchase weapons, conduct training, maintain broader organizational operations, effectively control their domain, gain political influence, expand globally (globally and locally), execute terror activities, and more.

Hezbollah, a hybrid terrorist organization, operates its terrorist-military arm alongside its political and civilian apparatus. With both local and international dimensions, Hezbollah has developed a sophisticated and diversified financial network to gain funding, manage it and efficiently expenditure. A part of the mechanism relies on criminal activity

conducted worldwide.

This study aims to analyze the financial system of Hezbollah, focusing specifically on the activities of crime families involved in its funding. Crime families play a critical role in fundraising, transferring, and managing funds through both legal and illegal means.

The underlying assumption is that uncovering, analyzing, and exposing these will disrupt the ability to raise and manage funds, reduce the organization's working capital, and thus its ability to build or rebuild itself and conduct terrorist activities.

Numerous campaigns have been conducted over the years to address terrorist financing. These efforts aim to dry up the income sources of terrorist organizations by targeting key fundraising hubs, arresting jihadist leaders, designating charities as supporters of terrorism, and tracking money to uncover its sources. Simultaneously, legislation has advanced to penalize those who assist in financing terrorism.

Although the designation of entities is an effective tool in combating terrorist financing, it appears that terrorist actors continue to operate with relative impunity even after being designated. Terrorist actors constantly study and adapt themselves to the changing reality, they embrace new technologies and operate much more dynamically than their pursuers.

Despite efforts to counter terrorist financing, a significant knowledge gap persists regarding the specific roles of individuals and crime families in Hezbollah's financial operations. Understanding this dynamic is crucial to undermining their operational capabilities. This understanding is particularly relevant given Hezbollah's current financial strain due to the reduction of its traditional funding sources and channels. While direct evidence may be limited, it is reasonable to assess that Hezbollah will seek to expand its funding avenues through every available means, including leveraging the activities of criminal families across the globe.

There is a strong likelihood that various criminal clans will intensify their efforts to funnel money to Lebanon in response to Hezbollah's urgent financial needs. These families, with their extensive transnational networks, are well-positioned to facilitate such transactions. Another critical aspect to highlight is the diverse range of illicit financial activities conducted by these families, which include money laundering through real estate, art trade, diamonds, luxury cars, narcotics, and other enterprises. These operations allow them to develop extensive global financial networks, enhancing their ability to move and obscure funds efficiently.

Research into this system is particularly essential due to the global reach and involvement in sophisticated financial operations. However, limited information exists regarding which individuals within Hezbollah's financial apparatus maintain these connections and whether these relationships have evolved in response to the current regional conflicts, particularly following the 'Iron Swords' war. It remains possible that operational patterns

have shifted due to the war, though the exact nature of such changes is yet to be fully understood.

In conclusion, investigating these networks provides valuable insights into the ways terrorist organizations, specifically Hezbollah, sustain themselves despite external pressures. In the coming months, a series of articles will be published, each focusing on a different crime family involved in Hezbollah's financial operations. The research will provide a deeper understanding of the various mechanisms employed by these families and offer a comprehensive perspective on Hezbollah's financial ecosystem.